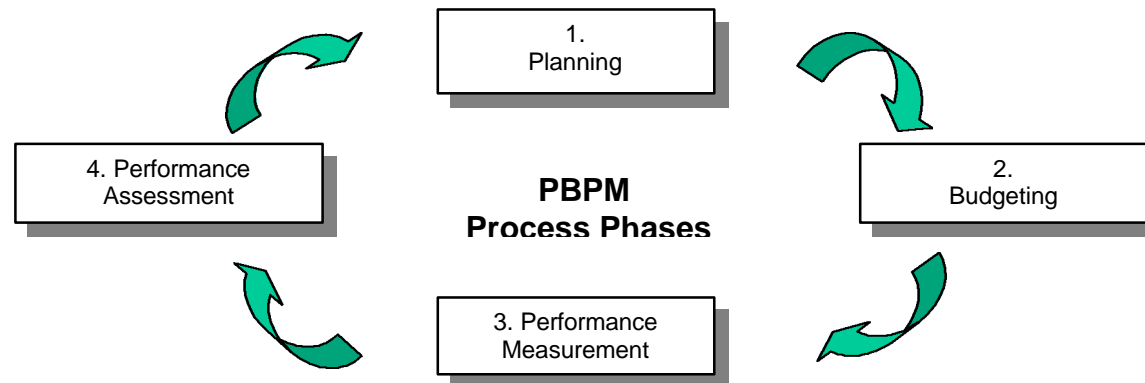


EXECUTIVE SUMMARY

ASSESSMENT BACKGROUND

As a result of the strategic re-baselining effort undertaken by the NRC and consistent with the requirements of the Government Performance and Reporting (GPRA), the U.S. Nuclear Regulatory Commission (NRC) initiated several efforts aimed at conducting agency business more effectively and efficiently. One major effort entailed developing and implementing a Planning, Budgeting, and Performance Management Process (PBPM), comprised of four phases depicted in the illustration below:



In designing PBPM, NRC sought to create a disciplined, integrated process for planning, budgeting, and measuring performance where plans and expected outcomes defined the budget and performance measurement elements of the process. NRC also wanted the PBPM process to facilitate management and staff commitment to agency goals and to more effectively match resources to the work required commensurate with the value added of the work.

OBJECTIVES AND SCOPE OF THE PBPM ASSESSMENT

Although NRC anticipates that full implementation of the PBPM process will require several years, Arthur Andersen was asked to conduct an independent assessment of PBPM after one year of operation. NRC specified that the assessment should evaluate each of the four phases comprising the PBPM process.

The four phases of the PBPM process include:

- Planning – Setting the strategic direction and planning the work
- Budgeting – Determining the resources required for the planned work
- Performance Measurement – Measuring and monitoring performance (management oversight)
- Performance Assessment – Assessing progress towards, and identifying ways to improve outcome achievements.

Based on analysis of current practices at NRC, and best practices used by other organizations, Arthur Andersen has identified process modifications designed to strengthen NRC's PBPM process. Strengthening PBPM will help NRC improve its institutional capacity to manage for high performance results.

GENERAL APPROACH

The steps employed by Arthur Andersen to assess the PBPM process were:

- Developed evaluation criteria using NRC's statements describing its vision for PBPM's accomplishments as well as best practice research in both the public and private sector
- Developed an understanding of the expectations of the process by interviewing many top management officials at NRC to gain their perspective on success criteria and issues with the current process
- Developed an understanding of the actual PBPM process
 - Reviewed actual documents used including guidance material, relevant NRC planning, budgeting and related documents
 - Interviewed staff involved in doing the work to understand actual implementation
 - Developed detailed activity maps from the staff interviews for each phase of the PBPM process
- Reviewed the program operating plans and the budget development process within NRR
 - Reviewed the detailed plans and interviewed several program managers about the plans
 - Attended several FY 2000 budget review sessions with NRR leadership
 - Attended several Program Review Committee meetings regarding budget reviews
- Reviewed and served as "coaches" to three internal NRC assessments in NRR, NMSS and RES
- Interviewed several members of the Office of Management and Budget (OMB) and the General Accounting Office (GAO) who were knowledgeable of GPRA and NRC programs
- Reviewed the NRC culture survey results conducted by the IG
- Identified opportunities for process improvements for each of the four major phases within the PBPM process using both the actual process maps and best practice research that suggested other possible approaches
- Conducted briefings for senior level management during the assessment to ensure understanding of progress.

This report presents Arthur Andersen's assessment findings and recommendations in three primary sections. The three sections are:

1. This Executive Summary that provides an overview of the approach, findings, and recommendations
2. A briefing presentation describing the assessment findings and recommendations steps for consideration in greater detail, including best practices research information and expected impact of implementation of the recommendations
3. Appendices with: (1) detailed activity maps of the PBPM process as implemented by NRC in its first year of operation and the PBPM process incorporating the recommended changes, and (2) A summary of the key roles the Chairman and Commission play in a revised process

SUMMARY OF FINDINGS

The PBPM framework is fundamentally sound because it has all of the critical components of a managing framework to be effective in providing the foundation for implementing an integrated outcome based performance management process at NRC.

1. PBPM implementation has fundamentally improved the NRC management process:
 - GAO and OMB ranked NRC's strategic and performance plans among the better initial government efforts
 - NRC's program operating plans provide information on planned work, deliverables, and the related resources required to do the work. This information was not previously available and has improved management understanding of the cost of activities and provided the foundation for performance reporting
 - Performance reporting against operating plans supports management oversight of ongoing performance.
2. Program plans do not directly connect plans and measures to organizational outcomes:
 - There is a gap between strategic goals and program plan outputs. The FY 2000 program plan activities were mapped to strategies, not outcomes
 - Planning does not build from the top down driven by organizational outcome goals
 - Plans are not effectively integrated across offices or programs
 - The current involvement of both the Commission and agency senior managers in the process does not reinforce managing to outcomes
3. Planning & budgeting were not effectively segregated or integrated:
 - The FY 2000 process was more budget driven than outcome or planning driven
 - The budget process is currently more of a justification of resources rather than an allocation of resources to critical work
 - The policy guidance used for planning was not clearly connected to goals or outcomes and as a result was not effective in providing clear direction to the Staff
 - The Staff Requirement Memorandum (SRM) process that provides direction to the NRC staff from the Commission is not effectively integrated into a structured planning process. As a result, the impact of the SRM's on the other work is not clearly understood
 - Scenario plans did not completely eliminate the need to redo the budgets down to the program and division level
 - The PBPM process timing is currently driven by budget submission dates.

4. Reporting and management oversight are somewhat informal:

- In the existing PBPM process, detailed quarterly updates to program operating plans are used to measure and monitor performance, principally by program managers, office directors, and Deputy Executive Directors (DEDOs)
- There is a lack of integrated performance reporting
 - There are neither formal performance reports nor structured management reviews with the Commission or the Executive Council (EC). As a result, there are numerous briefings on either progress of work or results that takes an inordinate amount of time
 - There are no distinctive reports for various levels of management
 - Management reviews of program plans vary by program.

5. Internal performance assessments are not driven by clear criteria that improve business performance:

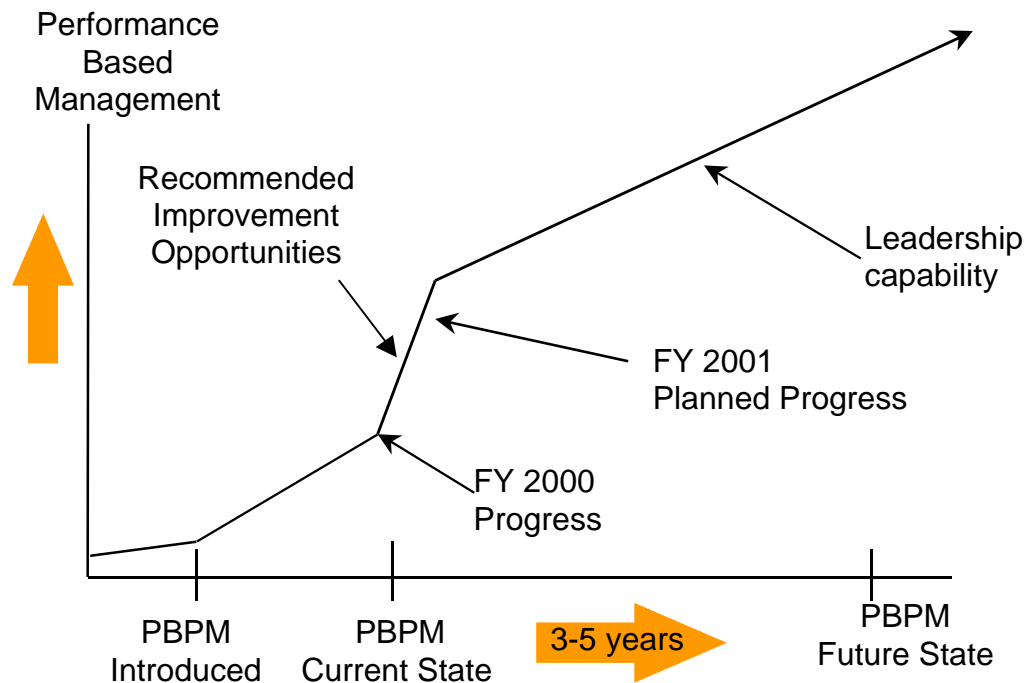
- The purpose or success criteria for each assessment were not clearly defined
- The program assessments reviewed were not clearly connected to business improvement objectives
- The value of assessments is not optimized because decision making and implementation responsibilities are not clearly defined.

OVERVIEW OF PBPM IMPLEMENTATION AT NRC

NRC's experience in implementing the PBPM process provides the opportunity to build on progress to-date and take PBPM to the next level of effectiveness. Figure 1 graphically depicts the step change made by NRC with the introduction of PBPM. Progress to date is a credit to the agency, but additional challenges are ahead in becoming fully performance based.

The recommendations identify several process improvements to help the NRC take PBPM and performance management, to the next level. The graphic also illustrates that leadership capability development is the key to success in becoming performance based. The Commissioners, EC, DEDOs and Office Directors must all fully embrace the need to change to more strategic and outcome based thinking and adapt the way they do work accordingly for the agency to become truly performance based.

Figure 1: PBPM Process Implementation at NRC



PBPM FUTURE STATE

The recommendations are intended to support a PBPM process in support of NRC becoming an outcome-based organization that measures success based on results and values continuous learning and improvement. The PBPM process would be characterized as follows:

- The agency outcomes become the key measure of success.
- Planning is emphasized and integrated. The Chairman, the Commission, and the Executive Council are very involved up-front in setting the strategic direction, the goals, the direction of improvement, and the key outcome measures of success for the agency. They would have a common picture of success and use these success criteria to evaluate the performance of the agency and its top managers
- Office directors work cohesively to ensure optimization of the efforts across the agency. SRM's are linked to outcomes and are effectively integrated into the planning updates
- All work can be connected and understood as to the contribution to agency outcomes. Operating plans are developed from the top-down following the integrated planning effort and identify the specific activities required to deliver success
- Budgeting is greatly simplified. Budgets are strategically linked to the activities in the plans and therefore linked to outcomes. This should be at a level necessary to manage for success of agency outcomes. The budget reviews would focus on the reasonableness of resource allocations to accomplish outcomes
- Routine performance management reports assist both top management and line management in monitoring performance allows effective and timely course corrections when they are needed. The Chairman, the Commission, the EC, and line managers would routinely receive performance management information tailored to meet their needs and a process would exist for reviewing and discussing performance against outcomes. The performance review process would emphasize progress made and actions needed to remove the barriers to achieving agreed upon results
- Performance assessments assist in identifying significant opportunities to improve performance or to change the work NRC is doing in a particular area.

RECOMMENDATIONS

There are five fundamental recommendations. They are:

1. Update the strategic plan with performance plan goals and strategies that support and connect to the strategic goals
2. Develop integrated plans from the top-down that identifies the critical work that is necessary to achieve the goals in the strategic plan
3. Shift to strategic budgeting, which would allocate resources to any new or ongoing work required to deliver the outcomes
4. Formalize performance reporting and management reviews to improve management oversight
5. Focus assessments on strategic agency improvement opportunities and limit their number each year.

The following outlines specific recommendations and includes implementation steps for consideration.

1. Update the Strategic plan with clear performance goals and strategies to deliver the goals. Updating the plan in this manner should bridge the gap between strategic goals and the work required for the agency to succeed. Use the lessons learned from NRR in this area. Steps to consider include:
 - The Chairman and Commission members provide input on improvements expected over the next 2-5 years. This can be reinforced by the expectations in the policy guidance approved by the Commission
 - The NRC Executive Council (EC), Deputy Executive Directors (DEDOs), and office directors define strategic goal areas, priorities, degree of change expected, and outcome measures of success for the agency as a whole or by strategic arena. This would also provide the basis for developing broad planning and budget guidance for the agency
 - The Chairman and the Commission review and approve the goals, the direction and degree of change expected, and the success criteria. The changes need total support to ensure unity in action throughout the agency. The Chairman and the Commission must lead by example by having NRC driven by outcome goals. Their focus should be more on the strategic plan and less on the operational detail that should be more the responsibility of the staff.

2. Develop integrated, top-down plans to ensure that all work is aligned and coordinated to agency outcomes and performance goals. Steps to consider include:
 - Office Directors translate the direction in the strategic plan into integrated plans for the agency. This could be done by arena in the interim, but the starting point should ultimately be the integration of work across the agency.
 - Identify initiatives required to shift performance consistent with the goals
 - Identification of the goals, vectors of change for each goal, and strategies to deliver the improvements
 - Identification of the broad program or office changes required to deliver the improvements
 - The Chairman and Commission need to buy in. Policy guidance could be used as the tool to gain this alignment before completing the more detailed planning.
 - Develop an effectiveness template for NRC or for each strategic arena (See NRR pilot results as a sample)
 - The template should summarize the goals, measures of success, and what work needs to be added, maintained, reduced, or shed to deliver the outcomes
 - The relative priority of all activities should be summarized by goal area
 - Complete a high-level resource allocation for the various work activities
 - Define agency-wide issues or concerns as well as strategic initiatives and provide to the EC and Commission for consideration
 - Results are reviewed with the EC, the Commission, and the Chairman for their approval.
 - Office operating plans are developed that take strategies, measures, and resource allocations into account and go down to the operating level to ensure that effective oversight is in place to deliver the outcomes.
 - Break down the office plan into detail where effective management oversight requires the detail
 - Develop only office plans as the lowest level of detail
 - Eliminate program plans, division, and branch plans.

3. Shift to strategic budgeting. The changes recommended to the planning process provide the opportunity to fundamentally simplify the budgeting process by strategically aligning resources to the critical activities prioritized by outcome area. Steps to consider include:
 - Developing the budget using strategic resource allocations to the critical work activities. Consider using the effectiveness template format developed by NRR.
 - Use the output of the planning process, including the strategic resource allocations, to develop a performance based budget and provide this budget to top management and the Commission for review. This would take the level of review out of the details and focus on critical assumptions about work and resources required to succeed against the goals.
 - Limit resource allocations to a level that is reasonable given that the budgets are developed several years in advance. Consider limiting detail to 10 FTE, at a minimum, or the dollar equivalent.
 - In light of the integrated planning recommendation, the role of the Program Review Committee should be reviewed.
 - Use activity prioritization from the planning effort to determine changes in planned work when budget constraints require change. This should eliminate the need for scenario planning as a separate activity.
 - Use the term resource allocation versus budgeting. Budgets have a connotation of control, where resource allocation follows effectively from planning.

4. Develop routine performance reports for all levels of management, including the Chairman, the Commission, and the EC, at the appropriate level of detail needed to understand and manage performance against outcomes. Also, schedule formal performance reviews to review results periodically. Steps to consider include:
 - Develop a quarterly performance report for the Chairman, the Commission and the EC that provides the information needed to track performance against outcomes. This agency level performance report should be the responsibility of the Chief Financial Officer consistent with annual external reporting beginning in March 2000
 - Use semi-annual or other EC meeting opportunities with the Commission and Chairman to review performance
 - Eliminate special tracking reports in lieu of formal reporting
 - Use routine performance reporting to reduce the need for special performance briefings at all levels of the agency
 - Create the management oversight discipline to work at the right level. Develop the ability of all senior executives and the Commission to understand integrated performance management including reporting and oversight at various levels of responsibility, and to stay at the right level. Consider formal performance management training for all senior managers and the Commission to ensure a common view of this discipline
 - Schedule quarterly EC performance reviews with NRC managers to consider plan adjustments when predefined performance variances exist or performance or other feedback indicates the need to reevaluate plans. Build SRM requirements into this quarterly process
 - Develop performance reports needed by line management to deliver outcomes. Line managers should receive more detailed reports at the frequency needed to make adjustments and keep performance on track. A model is being developed in NRR.

5. Focus assessments on strategic improvement opportunities. Steps to consider include:
 - Identify a limited number of assessments (2 or 3) as part of the strategic or top-down, integrated planning efforts
 - Identify assessment decision-makers up-front and define their responsibility to guide assessments and facilitate implementation of results
 - Dedicate internal FTE full time to performance assessments and allocate FTE and dollars to the efforts during planning.

SHORT TERM CONSIDERATIONS FOR FY 2001 PLANNING AND BUDGETING CYCLE

Communicate the expectation that all offices will be challenged to align their work to outcomes:

- Consider having the other offices go through the effectiveness activity similar to NRR where each office would:
 - Define their goal areas
 - Define the priorities and vectors of change
 - Map new initiatives and ongoing work to the goals and prioritize them in relation to the goals
 - Define the work that should be added, sustained, reduced or shed relative to the goals
 - Have the other offices consider the NRR goals and vectors as a baseline starting point
- Consider having RES go through the same effort as NRR so that the work for reactors can be integrated into an arena plan
- When the work is complete for reactors, review the results with the EC, EDO staff, and Commission for buy-in. Then use the success criteria developed for reactors to revise the strategic plan and consider reporting on the revised performance plan goals for FY 2000
- Consider having NMSS test the effort to gain lessons learned for the Fiscal Year 2002 process.

Use the pilot work in NRR to support the following:

- Develop policy guidance using the goals, vectors of change, and potential add and shed work activities. This is a different level of detail than the Commission is used to receiving, but is more consistent with managing to outcomes.
- Have NRR complete the effectiveness template as a means of communicating direction to the Commission about how guidance could be used differently.
- Have NRR complete the operating plan using the planning template proposed in the NRR work.
- Use the NRR results to revise the performance goals for FY 2000, if possible.
- Take a less detailed approach in developing and reviewing the budget for FY 2001 budget consistent with the overall recommendations.

CHALLENGES IN BECOMING A PERFORMANCE BASED ORGANIZATION

Implementation of recommended changes would take the PBPM process to the next level of performance management. However, becoming a model, performance-based organization requires a long-term commitment with many challenges for management and staff. Not only will staff be

asked to become outcome-based and held more accountable for measurable results, the commission and management will have to model behaviors that reinforce basic performance management concepts.

Some of the capabilities and behaviors present in performance based organizations include:

- An environment of continuous improvement. The ability to continually raise expectations and to challenge for continuous improvement
- A learning environment. The ability to use mistakes or variances as a means to learn and improve
- Accountability at all levels for results. Holding managers and staff accountable for results while not being prescriptive in telling them how to achieve the results
- Empowering and supporting staff at the same time
- Challenging proposed work that does not contribute to outcomes
- Being intolerant of non-performance, both oneself and others
- Using predefined reporting tools and not creating personal tools.

Becoming a performance-based organization is a long-term commitment by agency leadership. Some of the issues NRC needs to consider include:

- Getting leadership truly aligned and mutually supportive of managing to outcomes is a prerequisite
- Both the Commission and Senior Management must invest the time initially to develop a shared vision of both the goals and their roles in changing the way they do work for this effort to succeed.
- Focus on fewer things and letting go of some of the work will be a challenge
- Organizational values will be challenged in light of becoming outcome and performance based
- Having all employees buy in and support the change may be unrealistic.

Finally, the NRC must consider developing a strategy for change support that includes but is not limited to a communication plan.